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Part D's dirty little secret: the fleecing of America

By now, people know that Medicare Part D — the new prescription drug plan for seniors and disabled people — is a bureaucratic nightmare. While some beneficiaries have received significant benefits, many have been wrongly denied coverage and millions more have been baffled by an absurdly complex system.

But there is another dirty little secret about the program. A study I commissioned has just confirmed that seniors and taxpayers are paying much higher prices than if the federal government had been allowed to negotiate prices with drug companies. As the cost of Part D mounts, and beneficiaries plunge into its notorious "doughnut hole," this flaw will soon overshadow the program's other problems.

When Part D was debated in Congress, I argued unsuccessfully that the simplest approach was the best: expand Medicare itself to include outpatient drug coverage. Medicare has a proven track record of low administrative costs and reliable, uniform benefits. The federal government, moreover, could harness the enormous purchasing power that flows from buying drugs for more than 43 million Americans to negotiate steep discounts with drug manufacturers. Instead, President Bush and the Republican congressional leadership pushed through a program that relies on hundreds of private insurance companies to offer competing, stand-alone drug plans and to negotiate individually with drug companies. The administration promised that this private competitive market would yield lower prices.

They were wrong. According to a study conducted by the Democratic staff of the House Government Reform Committee, the prices charged by the 10 leading Medicare Part D insurance plans in southern Maine for the 10 best-selling drugs used by seniors is almost 80 percent higher than the prices the Department of Veterans Affairs negotiates for its purchases; almost 60 percent higher than the prices available to consumers in Canada; and more than 5 percent higher than the prices available on Drugstore.com, a popular Internet supplier of prescription drugs. For specific drugs, the price differences can exceed or approach 100 percent.

Since the drugs in question are expensive, the price differences are very significant. In Part D plans, the average price for a one-month supply of each of the 10 drugs is $1,187.

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If you are a patient at a VA clinic, the federal government would have paid just $665 for those drugs. With respect to specific drugs, the difference can be even more dramatic. On average, the Part D drug plans offer Protonix, a medication to treat heartburn and acid reflux, for $111 for a one-month supply, compared to the $21 the VA pays. Similarly, in Canada the ulcer medicine Prevacid would cost $63 for a month's supply, compared to the $135 under Part D plans.

Seniors and disabled people are shouldering much of the extra cost. The convoluted Medicare Part D design provides that the first $250 in eligible drug costs is the responsibility of the beneficiary. Thereafter, each covered individual pays a 25 percent co-pay until his or her total drug spending reaches $2,250. Then the entire price of each drug is again an out-of-pocket expense until spending totals $5,100, when the co-pay drops to 5 percent.

This is the so-called doughnut hole, a benefit-free zone that makes no sense except as a way to limit the cost of the program. As drug purchases under the plan accumulate (Part D has been operating for only three months), more and more seniors will fall into the doughnut hole. High prices will rapidly deplete their limited financial resources.

High prices are very bad news for taxpayers, too, for they expand both the number of seniors who exhaust their deductible and the number who spend through the doughnut hole, thereby increasing the total cost of Medicare Part D without increasing its value. With the drug program projected to cost between $500 billion and $1 trillion over 10 years, the fiscal stakes are high.

There are other major flaws in Part D that threaten its usefulness. For example, the most critical factor for seniors to consider in choosing a plan is whether it covers the specific drugs they use. This is not an easy investigation, and if the available facts are incomplete, the choice will be wrong.

Yet, another recent report prepared by the Democratic staff of the House Government Reform Committee concluded that the vast majority of Medicare Part D plans restrict access to popular drugs. These barriers are not disclosed to consumers unless and until they encounter the restrictions, which include pre-authorization, step therapy (which requires the senior to use other drugs — and have these therapies fail — before being allowed the drug of choice) and volume (dosage and quantity) limits.

These problems — overwhelming confusion and complexity, inflated prices and poor coverage — reflect a fundamentally flawed design. Until it is replaced by a more sensible system, drug manufacturers and insurers, not seniors and the disabled, will be the major beneficiaries.

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